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Department of the Treasury
Internal Revenue Service

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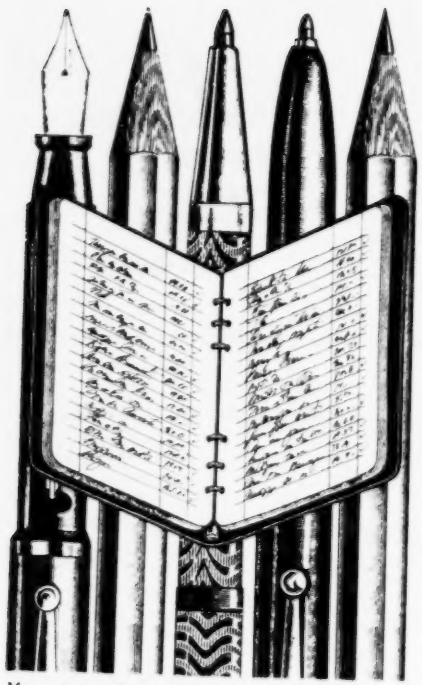
Tax Information for Sponsors of Contests and Sporting Events



You can get the tax forms and publications referred to in this publication by writing to the IRS Forms Distribution Center listed in your Form 1040 or 1040A Instructions. Or, you can call the Tax Information number in the phone book listed under "United States Government, Internal Revenue Service."

Introduction

Sponsors of contests or sporting events generally are required to file information returns when the value of any prize or award given to any one person is $600 or more and the sponsor does not have to withhold income taxes on the prize or award.

Sponsors also are required to withhold taxes on prizes paid to certain nonresident aliens.

Prize winners and award winners must report taxable income received from sponsors. All contestants must determine if they have a U.S. tax liability and file the appropriate tax returns if required.

Guidelines for Sponsors

Sponsors of contests or sporting events include persons and organizations engaged in a trade or business for profit, and organizations whose activities are not for gain or profit. Such nonprofit organizations include: civic or business leagues; chambers of commerce or boards of trade; churches or other religious or charitable organizations; foundations; social clubs; and agricultural associations.

Information returns. Sponsors of contests or sporting events must file information returns on the value of any prizes or awards made to an individual under the following two conditions:

1) If the awards or prizes made to that individual had a total value of $600 or more in any calendar year; and
2) If the sponsor did not have to either withhold income taxes on the value of the prizes or awards or report the value of the prizes or awards on Form W-2, *Wage and Tax Statement*.

The value of these awards or prizes must be reported by the sponsor on Form 1099-MISC, *Miscellaneous Income*, and Form 1096, *Annual Summary and Transmittal of U.S. Information Returns*. Copies of Form 1099-MISC must be furnished to prize winners and award winners.

Form 1099-MISC is an information return and Form 1096 is an annual summary report of all the winners for whom the sponsor was required to file Form 1099-MISC.

Types of prizes and awards reported on information returns. The value of prizes and purses totaling $600 or more paid to contestants who perform in sports events or tournaments such as prize fights, golf, bowling, rodeo riding, and auto racing must be reported by the sponsor on an information return. The value of prizes or awards totaling $600 or more paid to essay contestants and participants in radio and television giveaway shows must also be reported on an information return.

Identifying numbers. Sponsors should be sure to get the name, address, and social security number of each individual to whom a payment is made. Each sponsor must keep a running record of all contestants to whom prizes or awards are paid so that an information return can be filed when the amount paid to a contestant during a year totals $600 or more.

When and where sponsors file. Information returns prepared on Form 1099-MISC must be filed together with transmittal report Form 1096 with the Director, Internal Revenue Service Center. The addresses of the service centers are in the instructions for Form 1096. These forms must be filed by February 28 of the year after the end of the calendar year during which the payments were made.

Example 1. The Oak Golf Club sponsors a tournament in May of each year with prizes for first, second, and third low scorers. Harry Maple won first prize of $1,500; Tom Walnut won second prize of $1,000; and Fred Birch won third prize of $500. The Oak Golf Club must file Forms 1099-MISC for Harry Maple and Tom Walnut. Form 1099-MISC is not required for the payment to Fred Birch, because his prize was less than $600.

Example 2. If, in Example 1, the Oak Golf Club sponsored another tournament later in the same year, and Fred Birch again won third prize of $500, the Oak Golf Club would be required to file a Form 1099-MISC reporting total payments of $1,000 to Fred Birch, since the total amount was $600 or more in the same year.

Example 3. The Smithville Volunteer Fire Department held a raffle in which a new automobile, valued at $6,500, was given to the winning ticket holder, Charles Black. The Smithville Volunteer Fire Department must file a Form 1099-MISC reporting the value of the automobile won by Charles Black.

Example 4. Harriet Green, a high school senior, won a $1,000 prize for the most outstanding project in a contest sponsored by the Grey Chemical Company to stimulate the interest of young people in the biological chemistry field. The Grey Chemical Company must file a Form 1099-MISC reporting the payment to Harriet Green.

Sporting events prizes paid by sponsors to nonresident aliens. Income tax must be withheld on the value of prizes paid by sponsors to nonresident aliens participating in sporting events in the United States.

If a nonresident alien wins such a prize, the sponsor must withhold taxes at the rate of 30% of the value of the prize, purse, or fee. Sponsors must report these withholdings on both Form 1042, *U.S. Annual Return of Income Tax To Be Paid at Source (Under Chapter 3 Internal Revenue Code)*, and Form 1042S, *Income Subject to Withholding Under Chapter 3, Internal Revenue Code*.

In the following examples, it is assumed that the income received by the winners is not excluded from gross income by any tax treaties to which the United States is a party.

Example 1. Jill White contracts with Pedro Lago, a prizefighter who is a nonresident alien, to engage in a boxing match held in an arena in the United States. Jill must withhold 30% of the purse won by Pedro.

Example 2. Sara Redd, a professional golfer who is a nonresident alien, enters the United States to play in a tournament at the Fairview Country Club. The Fairview Country Club must withhold 30% of the prize won by Sara.

In these examples, the withholding agent (sponsor) will provide the winners with a copy of Form 1042S, for the amount of payments made and the tax withheld, when appropriate.

Exception. There is an exception when the winner's purse does not constitute compensation for personal services and the contestant files a Form 4224, *Exemption from Withholding of Tax on Income Effectively Connected with the Conduct of a Trade or Business in the United States,* with the sponsor claiming exemption from withholding. No income taxes will be withheld. However, such income will be taxable to the winner based on graduated income tax rates.

Example. Edgar Greene, a nonresident alien who is an owner and operator of a stable of race horses in his native England, races his horses at Race-Way, a racetrack in the United States in flat and harness racing. Edgar employs jockeys to ride his horses in flat races; however, he may drive his own sulky in harness races. The amounts he gets as a winner's purse are not compensation for personal services regardless of whether he won the purses by driving a sulky himself in a harness race, or by hiring a jockey in a flat race. Race-Way need not withhold income taxes on the winnings if he files a Form 4224 with Race-Way.

Form 1099-MISC (Copy B) should be given to winners by January 31 of the year after payment to help them prepare their income tax returns. However, these statements of earnings may be given to the winners in any form if the sponsor:

1) Clearly identifies the items in language like that used on official forms; and
2) Prints on the statement, "This information is being furnished on Form 1099-MISC to the Internal Revenue Service and appropriate state officials."

Penalties. Both criminal and civil penalties can be applied for the willful failure to file required information returns on all taxable prizes and awards.

Guidelines for Prize Winners and Award Winners

The value of all prizes and awards that are not tax exempt must be included in the contestant's income. This income must be reported on the contestant's tax return.

If a winner refuses to accept a prize or award, the winner does not have to report it, since it is not taxable income.

Tax-exempt prizes or awards. The value of prizes or awards received as a result of a prize or award winner's past achievements (in religious, charitable, scientific, educational, artistic, literary, or civic fields) are tax exempt if:

1) The winner was selected without taking any action to enter the contest or proceedings; and
2) The winner is not required to render substantial future services to receive the prize or award.

Such prizes or awards do not have to be reported on the winner's tax return nor should they be reported on an information return.

Scholarships or fellowship grants may be fully or partially tax exempt. If the scholarship or the fellowship grant is totally exempt from taxation, an information return is not required. For the conditions under which such full or partial exemptions apply, see Publication 520, *Tax Information for U.S. Scholars.*

Scholarship prizes won in a contest are not scholarships or fellowships when there is no requirement that the prize be used for educational purposes. They must be included in the winner's gross income whether or not the amounts are used for educational purposes.

If a prize or award is not made in money but in goods or services, an amount equal to the fair market value of the goods and services received must be reported. Such an amount must be included in the contestant's income.

For Official Use Only

Statement for Recipients of **1980**

Miscellaneous Income

Copy A
For Internal Revenue Service Center

49-0000000
Oak Golf Club
Alexandra, Va. 22201

Type or print PAYER'S name, address, ZIP code, and Federal identifying number.

Recipient's identifying number	1 Rents	2 Royalties	3 Prizes and awards
123-45-6789			$1,000.00

95 ☐

Type or print RECIPIENT'S name, address, and ZIP code below (Name must aline with arrow).

Name ▶ Tom Walnut
1100 Kingston Avenue
Mt. Pleasant, Va. 22217

For instructions on completing this form, see "Instructions for Form 1096."

Form **1099-MISC**

Department of the Treasury—Internal Revenue Service

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

$1.00

048-004-01723-1